

A social club does not under certain circumstances jeopardize its exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1954 by charging the public admission to its annual steeplechase.

Advice has been requested whether a social club, under the circumstances described below, jeopardizes its exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1954 by charging the public admission to its annual steeplechase.

The club was organized to promote the enjoyment of equestrian sports. In addition to its other club activities that are supported by membership dues, the club holds an annual one-day steeplechase meet. The meet is held on privately owned grounds and the course is reconstructed each year by the members. The meet is open to the general public, both as spectators and as participants.

The general public is charged no more for admission or for entry fees than the members of the club. Prize money is paid out of the entry fees paid by the participants, while the general expenses of the meet in providing spectator facilities and services are met through admission charges and the sale of programs and refreshments. The club distributes any net proceeds from the meet to charity.

Section 501(c)(7) of the Code provides that clubs organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes are exempt from Federal income tax provided no part of the net earnings inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1 of the Income Tax Regulations provides that, in general, the exemption extends to social and recreation clubs which are supported by membership fees, dues, and assessments. A club which engages in business, such as making its social and recreational facilities available to the general public, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes.

However, a club will not necessarily lose its exemption if it derives income from transactions with other than bona fide members and their guests, or if the general public on occasion is permitted to participate in its affairs, provided such participation is incidental to and in furtherance of its general club purposes and the income therefrom does not inure to members. See Rev. Rul. 58-589, C.B. 1958-2, 266.

In this case, the holding of a steeplechase in which nonmembers participate is incidental to and in furtherance of the club's general purpose of promoting the enjoyment of equestrian

sports. Although the club on occasion derives a small amount of income from nonmembers in excess of expenses attributable to their participation and attendance, the meet is not operated to make a profit, but for the pleasure and recreation of members of the club. If any profit results, it is turned over to charity. Therefore, the income from nonmembers does not inure to the club's members.

Accordingly, the club's exemption from Federal income tax under section 501(c)(7) of the Code is not jeopardized by nonmember participation in its annual steeplechase or the income derived therefrom.